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Ethics, Profits, and Prosperity

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The Society of CPCU Speakers Bureau

Ethics, Profits, and Prosperity

Introduction

Thank you for the opportunity to be with you today to talk about a topic that lies at the heart of all successful business enterprise -- professional ethics. You may wonder why I'm qualified to talk about a topic that is sometimes, at best, abstract.

I work for an industry that often finds itself in the midst of public controversy, as do other professions serving the public interest, such as the savings and loan and banking, health care, and auto industries. Insurance professionals have come to recognize that in order to realize our own best interests for profit and success, we must serve the best interests of our clients in a spirit of altruism. This is where high ethical standards begin.

Speaker's Credentials

As for my qualifications -- I represent a professional insurance association called The Society of Chartered Property and Casualty Underwriters. I joined this organization upon having earned the CPCU professional designation which takes five years of study and involves passing a series of examinations that test knowledge on a wide range of subjects important to insurance professionals. Becoming a CPCU and joining the Society also require adherence to a strict code of professional ethics incorporated in the Society's bylaws. An Ethics Committee also enforces the code among 22,000 Society members across the country. This

code of ethics is a standard that CPCUs and insurance professionals use to measure individual ethical values and attitudes. Perhaps some of you also belong to a professional organization with a similar code.

Purpose of Speech

My purpose today is to look at how high ethical standards create a corporate culture that enables a business to sustain a competitive edge. We'll look at how ethics are both personal and societal -- how to define our personal ethics, the importance of ethical training in our society -- and how this all impacts corporate and business ethics. Finally, we'll look at ways to build an effective ethical corporate culture that can compete in the global business arena.

Defining **Personal** Ethics

As I mentioned, ethics are both personal and societal. They are discovered by reason and introspection, yet they are shaped by our environment and the values of our culture. Within organizations, the ethics of the leaders shape the cultural values which are then incorporated into the beliefs of the individual members.

Ethical values are a great source of strength for individuals and organizations, but to gain strength from ethics, we need to spend some time and effort to understand what we believe. Shakespeare said it best, "... this above all: to thine own self be true and it must follow as the night the day, thou cannot be false to any man."

Most of us can readily identify our beliefs when presented with black and white issues -- for example, it's wrong to kill or steal or lie, and it's

right to help other people in need. Often, what we don't know is how to respond in situations where the issues are gray -- where we are forced to choose between the greater good and lesser evil. Is it right to kill a loved one who is in terminal pain? Is it wrong to steal a car to get an injured child to the hospital? This is where defining our own ethical values comes in.

Our ethics are defined by the decisions we make as we live our lives and do our jobs -- do we sell the product that pays the best commission or the one that best meets our clients' needs? Do we make the effort to understand our clients' needs well enough to know which products are best for them? Do we help an associate with a problem when we are busy with our own work or do we refer him to someone who is less qualified to help? Are we willing to break the law to do what we think is right?

Personal growth involves defining our values so we can more consistently make decisions based on our understanding of what is right and wrong -- it involves developing our own personal code of ethics. And personal growth involves education and training.

Theories of Ethics

In a book titled *Stages: Understanding How You Make Your Moral Decisions* by Nathaniel Lande and Afton Slade, the authors make a strong case for ethical training. They say we grow in moral understanding by discussion and debate. They lament that moral education in schools has been avoided for a generation or two because of the emphasis to maintain the separation of church and state and not teach any particular ideologies.

According to Lande and Slade, moral discussion groups in schools improve the character of the students, and they refer to work done in the 1950s by Dr. Lawrence Kohlberg, a Harvard professor and scholar of moral philosophy. Kohlberg conducted experiments with difficult high school students and prison inmates. He found that the moral attitudes of even the most hardened personalities can be changed by a combination of fair treatment and group discussion about ethical issues. Lande and Slade postulate that in the process of debating moral dilemmas, we become aware of our own thinking.

Kohlberg's theory is that all human beings experience moral development in six distinct stages beginning in childhood and continuing until our moral development reaches a plateau. Not everyone develops far enough to reach the highest stages.

(Overhead 1)

Kohlberg describes stage one as obedience and punishment. Children obey their parents to avoid being punished. Stage two is the morality of the marketplace. The "I'll scratch your back if you scratch mine" theory of morality.

In stage three, Kohlberg says we begin to base moral decisions on conformity to the ideals of the groups we belong to. Stage four is the stage of law and order where we uphold authority and make moral decisions based on maintaining the status quo.

The higher stages of moral development in Kohlberg's theory are when we begin to develop concern for the rights of others. In stage five we

make moral decisions based on a sense of social contract, protecting the rights of others while we fulfill our social and legal obligations.

Stage six is reached when moral judgment rests on universal moral principles, when we can view the other person's needs and our own without bias and base our actions on a concern for human dignity.

Another theory is found in a book by Joseph Fletcher, *Situation Ethics: The New Morality*. He traces the development of western religious philosophy from a legalistic approach to an approach based on love, to a moral philosophy that finds answers to questions of right and wrong within the situation.

Fletcher defines the legalistic approach to morality as one based on strictly codified rules. This approach has been used by all western religions at one time or another and has been the source of great suffering and confusion. Rules were piled upon rules, and anyone who broke them had to be punished. He points out that rules can be used as crutches to justify actions and allow us to avoid critical thinking about what is right and what is wrong.

He contrasts the legalistic approach with the no-rules approach favored by some of the early followers of Jesus. They thought that when a person was reborn in Christ that rules no longer applied. They thought they were guided by the spirit from within and they would know what was right when they needed to know.

Situationism is Fletcher's proposed middle ground between spiritualism and legalism. Situationism is a philosophy of moral decision-

making that respects rules and traditions, but ignores or compromises them when it is more loving to do so. A situationist might think that abortion is usually wrong, but might agree that it is the right thing to do for a woman who has been the victim of rape. Situation ethics depend on principles rather than rules.

Understanding Ethical Principles

Our changing world demands that we each make the effort to understand our own principles and compare them to various guidelines and standards that are available to us for building our own framework for sound ethical decision-making.

Potential standards we can use for comparison are codes for ethical conduct developed by professional organizations like The Society of CPCU, which I mentioned earlier. These offer standards which members can use to measure their own ethical values and attitudes.

Earning the CPCU designation, which I explained earlier, involves taking a pledge during the conferment ceremony. It reads, in part, as follows: "... I shall strive to ascertain and understand the needs of others and place their interests above my own."

I propose that this attitude of altruism expressed in the CPCU pledge is the highest ethical standard an individual can aspire to and the best measure for comparison of our own ethical principles. A spirit of altruism is a sure sign that a person has reached the sixth step in Professor Kohlberg's theory of moral development.

Dr. Edwin S. Overman, CPCU, President Emeritus of the American Institute for Property and Liability Underwriters, the educational institution that develops and administers the CPCU curriculum, made a thought provoking address to the New York State Association of Insurance Agents on May 16, 1962. He explained that the ideal of altruism is a universal measure for determining ethical conduct because it is expressed in the teachings of all the great religions of the world. In Christianity, it is expressed as the Golden Rule. During his research, Dr. Overman found the Golden Rule concept in Confucianism, Brahmanism, Buddhism, Taoism, Islam, and Judaism.

He concluded that unselfish behavior is man's true destiny and the purpose and intent of all human existence. To quote Dr. Overman, "Through the use of sound reasoning, man can discover a standard of conduct which, if followed continuously and religiously, will lead ultimately to a truly successful and contented life of devoted service to others."

The success he talked about is not only self-satisfaction, but also financial success. He found in his research that those insurance agents who consistently put the needs of others above their own were also the most financially successful. Their consistent concern for the needs of others created long-term relationships that were far more rewarding than any short-term gain that might be achieved by putting self-interest first.

Short-term vs. Long-term Business Ethics

The short-term versus long-term is an even greater issue for business than it is for individuals. This brings us to how the individual's ethics impact a business' corporate culture. For years, business writers have been predicting that quarter-to-quarter thinking would be our demise, and now we are seeing the evidence in the collapse of the savings and loan industry, forced mergers in the banking industry, the decline of America's auto industry, and the profits earned by Asian business on technology Americans developed.
(Overhead 2)

Businesses are made up of individuals who move in the general direction their leaders move. When business leaders are motivated by self-interest rather than by altruism, they make decisions having the most impact on the bottom line in the current fiscal year. Costs are cut by layoffs and plant closings. Inferior products are sold through clever packaging and advertising. Research and development budgets are cut, and customers are forgotten as the business becomes more and more internally focused.

When leaders are motivated by altruism, the first concern of the business is for the well-being of customers and the second concern is for the well-being of employees. The business becomes externally focused on the needs of customers. Energies are focused on research and development, constant improvements in product and service quality, and on training, education, and personal growth opportunities for employees. Decisions are made that build customer loyalty over the long term.

What's becoming increasingly evident from our competitors' success is that the businesses who prosper in our fast-changing world are those whose leaders are motivated by altruism and focus their thinking on the long term.

W. Edwards Demming, who went to Japan after World War II and taught the Japanese how to rebuild their economy out of the rubble, has been traveling and lecturing in America. He's a man in his nineties, but won't retire because he has a new mission: to teach America how to compete in the global business arena he helped to create.

He is often appalled at what is being taught at business schools. One particular notion that rankles Demming is the idea that by improving the quality of a product, a business can demand a higher price. According to Demming, this is all wrong. In his view the only way to create a sustainable, long-term competitive advantage is to sell the best quality product at the lowest price.

The long-term competitive advantage is created day by day by each individual who makes up the business organization. When individuals have similar values reflected in a collective attitude of altruism, the business will have a culture that gives it the capacity to create a sustainable competitive advantage. Such a corporate culture can carry a business through the most difficult periods of change and create wealth and prosperity in the process.

Building an Ethical Corporate Culture

To build such a culture requires great leadership, patience, and hard, repetitive work. But the payoff can be big. Let's look at what happened to Johnson and Johnson during the Tylenol scare back in 1982.

Writing in the October 29, 1984, issue of *Industry Week*, William H. Miller in an article titled, "Ethics and The Bottom Line," related how the Johnson and Johnson credo helped save the company.

The company adopted a credo in 1947 which outlined for its employees the company's basic responsibilities. The credo was updated in 1979 and discussed at a meeting of 150 managers from around the world. When the crisis came in the fall of 1982, dozens of people had to make hundreds of difficult decisions with no time for consideration or reflection. The decisions were complicated, each involved considerable risks, and company managers had no historical perspective to guide them. After the crisis, a poll was taken and 93 percent of the respondents felt Johnson and Johnson had handled its responsibilities well. By 1984, Tylenol had regained more than 90 percent of its former business.

James E. Burke, Chairman of Johnson and Johnson at the time of the crisis, credited the credo as the most important factor in the quality and consistency of his managers' decision-making.

Few businesses have credos, but many have codes of ethics, and more are getting them. Some will gather dust, but those that become institutionalized may become the foundation of a corporate culture based on altruism. Developing and institutionalizing a credo or code of ethics is

the start for building a corporate culture based on altruism that will enable a business to compete in a global economy.

Institutionalizing Ethics

(Overhead 3)

The process of institutionalizing a company's code of ethics requires patience and hard work. Again, referring to the William Miller article, "Ethics and The Bottom Line," he explains that companies are, quote, "...incorporating ethics into their management training, stepping up communication of their ethics codes among employees, establishing procedures to monitor and enforce compliance with their codes, and even updating their codes to reflect new business situations."

Training, retraining, and reinforcement are the methods for molding a code of ethics into a corporate culture. Training in the specifics of the code is supplemented by case study discussions about everyday ethical dilemmas, then reinforced by the actions of senior management on an on-going basis.

Case studies are used in ethics training by companies like McDonnell Douglas, Chemical Bank, Dow-Corning, Allied Corporation, Rockwell International, and Boeing, because it is through discussion that people come to understand their own values and begin to compare them to a standard like a code of ethics. Remember Professor Kohlberg's work at Harvard -- he confirmed that the moral attitudes of the most hardened personalities can be changed through fair treatment and group discussion about ethical issues.

Professional societies can also play a role in ethics training and discussion. The Society of CPCU has a column in its national newsletter called "A Question of Ethics." Each column poses two or three ethical dilemmas that members have faced in their daily business dealings. Readers then send their ideas on how to resolve the dilemma, and are encouraged to send examples of their own ethical dilemmas for future columns.

Each year the Society has an annual conference that includes a seminar on ethics. The Society also established and participates in an annual "Ethics Awareness Month" along with several other insurance organizations. During this time, local chapters conduct ethics programs as part of their monthly meetings. During the programs, members discuss case scenarios involving ethical dilemmas.

Our members express divergent opinions on the ethical issues presented, but we find that the core values are fairly consistent. While we make every effort to present issues that fall into the so-called gray areas of ethical thinking, we find our members readily identify what is right and what is wrong in the situation we present.

By the case study method, our professional Society helps to raise our members' awareness of the importance of ethical behavior. We hope as this awareness increases, our members will become a force for change that encourages insurance industry leaders to promote a spirit of altruism in our business.

Leaders make the difference because they set the example and because in all businesses the leaders have the power to create a more altruistic corporate culture. An article in the spring 1991 issue of *Sourcebook Magazine* by Patrick Houston titled, "The Trouble with Ethics," describes some of the actions business leaders are taking to improve their corporate cultures.

At Boeing, people are trained in ethics and then asked to prove their strategic plans meet Boeing's commitment to integrity. Achievement of ethics-related goals is evaluated in the mid-year performance review. At Rockwell International, the code of ethics is printed in the employee manual and ethical issues are discussed at group meetings.

Another article in the spring 1991 issue of *Sourcebook Magazine* is titled, "The Spirit of the Law," by James S. Thornton. The author explains that by the mid-1980s, a company called Investors Diversified Services had so many rules it could not grow. So IDS decided to develop a value system to replace all-the rules.

All employees were asked to articulate their values. The values were sorted into four groups: putting clients first, pursuing excellence, fostering a spirit of teamwork, and respecting each employee as an individual. Now that the value system is in place, values are addressed in performance reviews. Anonymous attitude surveys are also taken every two years to make sure that the employees' understanding of the values remains high.

For Boeing and IDS, ethics has moved from the realm of the abstract to the realm of practical necessity.

Conclusion

(Overhead 4)

In conclusion, high ethical standards are rooted in the spirit of altruism. The personal and social values of the individual carry over into the business world. Personal growth involves defining our values which involves education and training. We can do this in part by measuring our personal values against existing standards and codes of ethics.

Business leaders create a corporation's ethical culture. Business leaders motivated by self interest rather than altruism make decisions affecting the short term rather than the long term. But those motivated by altruism build customer loyalty over the long term which carries a business through the most difficult periods of change and creates wealth and prosperity.

Building a corporate culture based on altruism involves defining ethical values" through a credo or code of ethics, and then institutionalizing it through training, retraining, discussion, and incorporating it into goals and objectives. Membership in professional societies also reinforces ethics training and discussion.

By focusing thinking on the long-term through altruistic service to others, American business will be equipped to compete in the global marketplace. With the right set of values, businesses can profit from change and individuals can find happiness and prosperity in their lives.

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